BC Immigrant Investment Fund Ltd.

2018/19 – 2020/21
SERVICE PLAN

February 2018

BRITISH
COLUMBIA

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Board Chair Accountability Statement

The 2018/19 - 2020/21 BC Immigrant Investment Fund Ltd. (BCIIF) Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of January 24, 2018 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, BC Immigrant Investment Fund Ltd. (BCIIF) mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of BC Immigrant Investment Fund Ltd. (BCIIF) operating environment, forecast conditions, risk assessment and past performance.

Sandra Carroll
Board Chair

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Strategic Direction and Alignment with Government Priorities

The BC Immigrant Investment Fund Ltd. (BCIIF or the Corporation) underwent a mandate review in 2015/16 which resulted in a change in governance and revised strategic direction. The review confirmed the Corporation's continued mandate to receive and manage B.C.'s allocation of funds under the Federal Immigrant Investor Program (IIP) in order to invest in economic development and job creation in B.C.; and set new priorities for the Corporation including the launch of the $100 million venture capital BC Tech Fund to be managed by an experienced, private sector fund manager.

As outlined in its 2018/19 Mandate Letter from the Minister of Jobs, Trade and Technology, BCIIF will focus on three strategic priorities in the coming year:

- Oversee BCRCF investments and provide updates each June and December on how these investments are supporting the growth of B.C. tech companies and stimulating job creation in British Columbia;
- Work with the Ministry of Jobs, Trade and Technology (the Ministry), the BC Tech Fund manager and other stakeholders to support the growth of B.C.'s venture capital ecosystem and create a summary report of achievements by December 31, 2018; and
- Minimize the exposure of accessing the loan guarantee that the Province has given to the federal government on monies received under the Immigrant Investor Program by maintaining best business and investment practices to realize commercially competitive investment returns.

BC Immigrant Investment Fund Ltd. (BCIIF) is aligned with the Government's key priority:

Government Priorities	BC Immigrant Investment Fund Ltd. Aligns with These Priorities By:
A strong, sustainable economy	• Continuing investment in B.C. Businesses and B.C.-Based Venture Capital Funds (Objective 3.1) • Growing the Amount of Venture Capital Invested in B.C. (Goal 4)

Operating Environment

BCIIF supports the following Ministry of Jobs, Trade and Technology's mandated priorities:

1. Establish B.C. as a preferred location for new and emerging technologies by supporting venture capital investment in B.C. start-ups, taking measures to increase the growth of domestic B.C. tech companies.

2. Ensure that the benefits of technology and innovation are felt around the province by working with rural and northern communities and equity-seeking groups to make strategic investments that support innovation and job growth.

By supporting the Ministry's mandated priorities, BCIIF will help build a strong, sustainable and innovative economy that works for all British Columbians.

BCIIF promotes economic development and job creation in B.C. by investing in three asset classes: public sector infrastructure loans, venture capital fund investments and cash and short-term investments through the Province's Central Deposit Program (CDP) and the British Columbia Investment Management Corporation (bcIMC).

Loan Portfolio: BCIIF long-term infrastructure loans have been made to Government Reporting Entities (GREs), primarily post-secondary institutions, to support student education and knowledge-based sectors. With the 2014 federal termination of the IIP, the BCIIF is no longer offering new infrastructure loans.

Venture Capital Investments: Venture capital investments focus on funds and companies in the information and communications technology, digital media, clean tech, and life science sub-sectors. Through its wholly owned subsidiary, the B.C. Renaissance Capital Fund (BCRCF), the BCIIF has two venture capital investment portfolios that are managed by a private sector fund manager, Kensington Capital Partners.

- **Portfolio 1 – BCRCF** is comprised of $90 million in investment commitments made to nine funds between 2007 and 2011. Portfolio 1's investments were used to attract venture capital fund managers to B.C. and grow investment in B.C.'s venture capital ecosystem.
- **Portfolio 2 – BC Tech Fund** is a fund of funds launched in 2016 that makes investments into B.C. based venture capital funds and direct co-investments into B.C. technology companies. The BCRCF has committed $100 million to the BC Tech Fund, which is focused on investments at the Series A stage of financing.

Cash & Short Term Investments: bcIMC manages the BCIIF's short-term, low-risk investments in government and corporate debt securities. Since 2013, cash funds have also been invested with the Ministry of Finance in the CDP, which deploys short-term cash primarily for financing government's Consolidated Revenue Fund.

Key risks faced by the Corporation, along with strategies for their management are:

- ***Interest rate risk:*** very modest growth has kept interest rates low, resulting in reduced interest income from liquid investments. BCIIF manages exposure to interest rate volatility by holding a portfolio of long-term fixed rate and short-term floating rate investments.
- ***Currency risk:*** venture capital investments denominated in U.S. dollars pose a foreign currency risk. BCIIF holds U.S. dollar liquid assets sufficient to meet all remaining U.S. dollar-based commitments.
- ***Credit risk:*** BCIIF's loan portfolio is at risk in the event of non-repayment by borrowers. All loans are made to GRE borrowers and structured with a corresponding general obligation ranking equivalent to other loans by the borrowers.
- ***Liquidity risk:*** timing differences exist between cash receipts from infrastructure loans and cash repayments to the federal government. BCIIF manages this risk by holding a significant portfolio of short-term liquid investments, and seeking alternate financing when required.
- ***Returns risk:*** venture capital is a high risk asset class that does not afford guaranteed returns. Venture capital investments are subject to the "J-curve effect" typically over a 10-year fund

lifecycle. Negative returns may occur in early years while new investments are being made. Gains occur in later years as portfolio companies mature and exit. Caution should be exercised regarding the expected timing and distribution of venture capital returns.

Performance Plan

Goal 1: Manage Investments to Achieve Commercial Returns and Meet Repayment Obligations

Objective 1.1: Achieve Targeted Average Yields on Investments

Key Strategies:

- Maintain a balanced portfolio of investments that achieve commercial returns while aligning to BCIIF's risk profile.
- Achieve commercial returns on low-risk infrastructure loans which mitigate the higher-risk venture capital portfolio. BCIIF's loan portfolio is comprised of long-term loans to the Provincial Treasury, which in turn provides loan financing to GRE entities to support approved public sector infrastructure projects with loan yields equivalent to Government's cost of borrowing.
- Deposit funds with CDP and bcIMC to have sufficient liquidity to meet five-year IIP repayment obligations to the federal government and to meet capital calls for venture capital investments.

Performance Measures (%)	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
1.1a Five Year Weighted Average BCIIF Portfolio Return	2.42	2.31	2.32	2.47	2.59
1.1b One Year Weighted Average BCIIF Portfolio Return	2.49	2.38	2.74	2.74	2.51

Linking Performance Measures to Objectives:

These performance measures are appropriate to ensure BCIIF is achieving commercial returns on its lower risk portfolio. As the BCIIF stops receiving IIP allocations, cash balances in the BCIIF will decline leaving the majority of investments in higher yield infrastructure loans, creating higher weighted average returns. As infrastructure loans mature, and BCIIF does not renew, one year weighted average returns will start declining in 2020/21 as the remaining infrastructure loans for that period have lower yield interest rates.

1.1a Calculated based on a five year weighted average of the expected returns on the investments in the BCIIF portfolio.

1.1b Calculated based on a one year weighted average of the expected returns on the investments in the BCIIF portfolio.

Discussion:

Targeted yields are comparable to returns that could be realized through similar investment vehicles such as Guaranteed Investment Certificates (GIC's). BCIIF must hold cash in short-term investments to meet cash calls for venture capital investments and debt obligations. BCIIF is on-track to achieving its 2017/18 targets.

Goal 2: Enhance Operational Oversight

Objective 2.1: Improve Operational Effectiveness

Key Strategies:

- Develop and implement a Performance and Accountability Framework to optimize BCIIF's effectiveness and ensure alignment with Government's direction and the *Budget Transparency and Accountability Act*.

Discussion:

BCIIF's Performance and Accountability Framework was developed and approved by the Board. The framework includes a clear set of performance and accountability metrics with a set of outcomes that align with BCIIF's and Government's shared goals. Frameworks set internal key performance indicators as well as organizational outcomes to ensure effective oversight and enhance managerial efficacy. The framework will continue to be updated and refined to ensure BCIIF is adapting to environmental changes while achieving all goals set by the Corporation and mandated by the Ministry.

Goal 3: Utilize Venture Capital Investments to Build a Stronger Venture Capital Ecosystem in B.C.

Objective 3.1: Continued investment in B.C. Businesses and B.C.-Based Venture Capital Funds

Key Strategies:

- Ensure that BC Tech Fund investments are made into B.C.-based venture capital funds to increase the number of funds and professional fund managers in B.C.
- Ensure that BC Tech Fund investments lead to investments in B.C.-based companies.
- Collaborate with the BC Tech Fund manager to implement initial system building activities that will lead to more BC-based VC funds and investments in B.C.-based companies.

Performance Measures	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
3.1a Cumulative number of investment commitments made to B.C. Businesses from the BC Tech Fund	1	6	10	12	12
3.1b Cumulative number of investment commitments made to B.C.-based VC Funds from the BC Tech Fund	1	6	6	6	6

Linking Performance Measures to Objectives:

Performance measures 3.1a and 3.1b measure the number of investments made in B.C. to ensure the Corporation is able to assess the impact the BC Tech Fund is having on B.C.'s venture capital system.

3.1a Investments made in B.C. businesses ensure that companies grow and stay in B.C.

3.1b Investment commitments made to B.C. based VC funds help expand the number of venture capital funds in B.C. that provide capital and expertise to help growing B.C. technology companies.

Discussion:

BCIIF is on-track to meeting its 2017/18 targets for these performance measures. Target levels were chosen based on total funds available for investing, the length of the BC Tech Fund's investment period, the number of funds that meet the BC Tech Fund's investment thesis and considering the average financial commitment available per investment.

Goal 4: Grow the Amount of Venture Capital Invested in B.C.

Objective 4.1: Capital called by B.C. investee companies and invested in B.C.-based VC Funds

Key Strategies:

- Ensure the A-round[1] funding gap is being addressed by increasing the quantity of venture capital that is available and called by B.C. companies from BCRCF investments.
- Leverage fund manager investment networks to create investment syndicates that grow the amount of investment in B.C. tech companies.

[1] A- round is the first round of financing given to a new business once seed capital has already been provided. Typically, this is when external investors are given company ownership for the first time.

Performance Measures[1] (Sm)		2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
Portfolio 1						
4.1a	Cumulative capital called on BCRCF's commitments to fund managers	$79.4	$85	$89	$90	$90
4.1b	Cumulative investment by BCRCF fund managers and syndicate partners in B.C. companies	$581	$585	$587	$587	$587
Portfolio 2						
4.1c	Cumulative capital called on BC Tech Fund commitment	$6.8	$12	$37	$62	$66
4.2d	Cumulative investment by fund managers and syndicate partners in B.C. companies	$26.9	$100	$200	$260	$280

[1] Data Source: Capital calls and investment amounts are based on invoices, audited financial statements and quarterly performance reports from the BCRCF and BC Tech Fund managers.

Linking Performance Measures to Objectives:

4.1a – 4.1d Measuring cumulative capital called and cumulative investments demonstrate that Portfolios 1 and 2 are increasing the amount of venture capital available to support B.C. tech companies. These investments will help to address the A-round funding gap and assist companies in commercializing new ideas. These measures support the Ministry mandate of increasing venture capital investment in B.C. start-ups and growing domestic B.C. tech companies to help them commercialize technologies and grow innovation.

New to this Service Plan, BCIIF has combined its cumulative investment performance measures for both Portfolio 1 and 2. The new cumulative investment measures now include both fund manager investment and investment by syndicate partners. Targets have been combined and have changed from the 2017/18 – 2019/20 Service Plan, released September 2017. Information relating to the change is noted in the discussion below.

Discussion:

BCIIF is on-track to achieving its 2017/18 target. For forecast and target purposes, Portfolio 1 has used an approximate leverage multiple of slightly over 5.0 times the capital called on BCRCF's commitments to fund managers for performance measures 4.1a and 4.1b, respectively. Targets for measure 4.1b have been adjusted down to reflect information received by BCRCF fund managers that indicate little to no further investments are being made in new or existing companies as the funds are past their investment period. Although BCRCF funds are fully committed, follow-on investments and corresponding capital calls may still be made by fund managers however are expected to be lower than years past. In addition, forecasts contain elements that are not within direct control of the BCRCF or its fund manager. An example is capital being invested by investee funds based on their investment strategy and capital being invested by the other syndicate partners.

Forecasts and targets for Portfolio 2 were developed considering the investment period of the BC Tech Fund and past investment patterns of similar fund-of-funds and investment restrictions.

Financial Plan

Summary Financial Outlook

($,000)	2017/18 Forecast	2018/19 Budget	2019/20 Budget	2020/21 Budget
Total Revenue				
Venture Capital Investment Income	-	-	-	-
Realized Investment Gains	1,364	142	-	-
Interest Income	4,199	2,318	1,137	986
Total Revenue	**5,563**	**2,460**	**1,137**	**986**
Total Expenses				
Amortization of promissory note discount	2,291	1,133	172	39
Investment fees	306	284	249	225
Office and business expenses	-	-	-	-
Debt service costs	4	171	716	722
Venture capital investment losses	3,876	-	-	-
Total Expenses	**6,477**	**1,588**	**1,137**	**986**
Annual Surplus (Deficit)	**(914)**	**872**	-	-
Total Liabilities/Debt	**158,711**	**61,563**	**46,890**	**40,252**
Accumulated Surpluses	**49,938**	**49,529**	**49,529**	**49,529**

* Further information on program funding and vote recoveries is available in the Estimates and Supplement to the Estimates.

Key Forecast Assumptions, Risks and Sensitivities

The above financial information and forecasts are prepared based on Public Sector Accounting Standards in Canada. This Service Plan incorporates "forward-looking statements" including information related to future anticipated investment performance and related revenues, along with expected expense levels.

Actual results may differ materially from those in the forward-looking estimates. This is a result of various factors, some of which are beyond BCIIF's control, including, but not limited to, the risks discussed under the Operating Environment section of this Service Plan. Review and interpretation of forecasts should take into consideration the following:

1. Revenue assumes that all available funds, other than those required to meet near-term commitments which includes repayments to the federal government, will be invested in liquid financial instruments with CDP and bcIMC, earning returns reflecting short-term, low-risk investments.
2. In fiscal year, (2016/17), the management and governance of the BCIIF and BCRCF was transitioned to the then Ministry of Jobs, Trade and Technology (the Ministry) and all operating expenses other than amortization are and will continue to be borne by the Ministry, not by the BCIIF or BCRCF.
3. Loans received through the IIP are received net of commission costs. BCIIF amortizes those commission costs over the term of the loan (five years). The debt to Canada is supported by a Provincial guarantee.
4. Venture capital investment income and losses have been forecasted this period as the venture capital funds are at or near maturity and proceeds from the investments can be estimated. Income and losses have been estimated based on market conditions at the time of service plan publication. If the market value of the fund is above BCIIF's cost of the fund, income has been forecasted. If the market value of the fund is below cost, a loss has been reported. As the venture capital market is unpredictable, income and loss estimates may be adjusted in future service plans to reflect market conditions at that time.

Based on forecasted cash flow, the BCIIF may experience a cash shortfall in 2018/19 which would require a Fiscal Agency Loan from the Ministry of Finance to meet repayment obligations. This cash short flow is a result of a timing mismatch between cash inflows from investments and repayment requirements.

Management's Perspective on the Financial Outlook

BCIIF's revenue budgets for realized investment gains and investment income are decreasing over the next three years due to the absence of new IIP allocations to invest as current investments mature and cash proceeds are used to repay the federal IIP obligation.

Venture capital investment in Canada has grown steadily year-over-year since 2012. Exit valuations[2] for tech companies were $4.3 billion in 2015, far surpassing 2014 ($1.5 billion) and 2013 ($1.3 billion)[3]. The investment climate and recent strength of exit values indicate that the outlook for the Canadian venture capital industry looks favourable.

Based on current cash flow projections, BCIIF will require a fiscal agency loan in 2018/19 to meet its IIP repayment obligations and capital calls in the BC Tech Fund. This is a result of a timing mismatch between cash inflows from investments and repayment requirements. Future debt servicing costs may change in proportion to the amount of new financing needed.

[2] An exit valuation of a company is the value of a company immediately before it is sold

[3] Source: CVCA. CVCA is the Canadian Venture Capital and Private Equity Association. CVCA is the leading expert for Canada's venture capital and private equity industry.

Appendix A: Hyperlinks to Additional Information

Organizational Overview and Corporate Governance

BC Immigrant Investment Fund Ltd. (BCIIF)

An organizational overview of BCIIF, mission and values, leadership, and corporate governance information (includes all information and disclosure requirements of the Crown Agencies and Board Resourcing Office) can be found starting here: http://bciif.ca/bciif/overview/ and by examining subsequent drop-down menu links.

Mission and values: http://bciif.ca/bciif/missions-values/

Leadership and governance including Board information: http://bciif.ca/bciif/leadership/

Standards of Conduct: http://bciif.ca/wp-content/uploads/2015/06/Standards-of-Conduct-2014.pdf

Portfolio 1 - B.C. Renaissance Capital Fund Ltd. (BCRCF)
Additional information on investment strategy, venture capital fund managers and investee companies of BCRCF, a wholly-owned subsidiary of BCIIF, can be found at: http://bciif.ca/BCRCF/
Fund manager profiles and B.C. investment details can be found at: http://bciif.ca/bcrcf-fund-managers/

Portfolio 2 - BC Tech Fund
Additional information on investment strategy, manager of the BC Tech Fund, and portfolio investments can be found at: http://bciif.ca/bcrcf/p2-fund-managers/

Appendix B: Subsidiaries and Operating Segments

Active Subsidiaries

The B.C. Renaissance Capital Fund Ltd. is a Crown corporation wholly-owned by the BCIIF. The Board of Directors and management are the same as the BCIIF. Like the BCIIF, the BCRCF aligns its activities with the Corporation's strategic priorities and fiscal plan.

In August 2007, the provincial Treasury Board approved an allocation of $90.2 million from the BCIIF to the BCRCF for venture capital investments in key technology sectors of *information technology, digital media, clean technology and life sciences*.

In 2016 a further $100 million was approved to support the BC Tech Fund, bringing BCRCF's total allocation of venture capital investments to $190.2 million. The objectives of the BCRCF's venture capital investments are to:

- Generate positive returns for the capital committed
- Increase the probability that innovative new goods and services in B.C. gain full-scale commercialization
- Increase the depth of the venture capital market and increase the quantity of venture capital available in B.C.
- Enhance the visibility of B.C. as an attractive market for venture capital opportunities in North America and globally

The BCRCF is the venture capital component of the larger BCIIF investment portfolio. Financial and operational risks or opportunities facing BCRCF are reflected in the BCIIF Service Plan.

Summary Financial Outlook Table for Each Active Subsidiary

($m)	2017/18 Forecast	2018/19 Budget	2019/20 Budget	2020/21 Budget
Total Revenue[4]	-	-	-	-
Total Expenses	(3,876)	-	-	-
Net Income (Loss)	**(3,876)**	-	-	-

[4] BCRCF financial accounts are consolidated into the parent company statements of BCIIF. Income and losses have been forecasted in the current year due to the underlying investments being at or near maturity and proceeds from the investments can be estimated.

Summary of BCIIF's Portfolios

Portfolio	Year	Fund Manager	Fund Name
1 – BCRCF	2007	ARCH Venture Partners VantagePoint Capital Partners Kearny Venture Partners	ARCH Venture Fund VII VantagePoint CleanTech Partners II VantagePoint Venture Partners 2006 Kearny Venture Partners
	2009	Vanedge Capital Tandem Expansion Yaletown Venture Partners	Vanedge Capital I Tandem Expansion Fund I Yaletown Ventures II
	2011	Azure Capital iNovia Capital	Azure Capital Partners III iNovia Investment Fund III
2 – BC Tech Fund Investments in B.C.-based funds	2016	Vanedge Capital	Vanedge II
	2017	Lumira Capital Corp	Lumira Capital IV
	2017	Scale Up Ventures	Scale Up Venture Fund 1
	2017	Yaletown	Yaletown Innovation Growth Fund
	Year	**Fund Manager**	**Company Name**
2 – BC Tech Fund Investments in B.C.-based companies	2016	Kensington Capital Partners	Mojio
	2017	Kensington Capital Partners	Foodee Media Inc